CV 03

MMS-III
(Finance)

22-10-2012

Corporate Valuation

SECTION-I

Total No. of Questions : 3 Maximum Marks : 30

Duration (hrs.) : 1.5 hrs

Section, if any : Section I

Note 1) Section I & II to be solved on SEPARATE ANSWER Book.
2) Answer any 3 out of 4 in Section I.

Q.1.

a. What are various approaches of Value Enhancement in Valuation? Describe any CFROI approach in brief. (5 marks)

b. Calculate Economic Value Added using following information of ABC ltd.for the year ended 31st March 2012— (5 marks)

i. Profit before Tax and after exceptional items for the company for the year are recorded at Rs. 10000 Cr.
ii. Company earned Rs.510Cr. as the profit on sale of certain long term investments.
iii. Tax rate applicable to the company is 30%
iv. Finance Cost on long term borrowings is Rs.1200 Cr.
v. Return on invested capital is 19%
vi. Weighted average cost of capital for the company is 7%

Q.2. Following information about JSW steel and its peers is given –

Company	Market Cap (Rs. in Cr.)	P/E (x)	P/BV (x)	EV/EBIDTA (x)
Tata Steel	38,464.77	6.59	0.73	5.25
S A I L	35,522.56	9.47	0.89	6.33
JSW Steel	16,468.49	6.36	0.91	5.83
Bhushan Steel	10,431.69	10.22	1.43	9.84
Jindal Saw	3,169.40	10.07	0.89	9.56
JSW ISPAT	2,423.71	-4.03	0.29	-9.43
Maharashtra Seamless Ltd.	2,365.91	7.61	1.13	5.96

All the multiples are 12 months trailing.

Based on above information answer the following:

a. Comparing only P/E ratios of JSW Steel with its peers is JSW Steel undervalued? If yes, why? If no why? (2 marks)
b. With respect to EV/EBITDA multiple, can it be concluded that JSW Steel undervalued? if yes why? If no, why? (2marks)
c. What is P/BV multiple in Relative valuation? What conclusion can be drawn about JSW Steel based on this multiple? (2 marks)
d. Which of the above multiples in your opinion would be more reliable for relative valuation of JSW Steel and why? (2marks)
e. State true or false with appropriate reasoning - (2marks)
    i. While calculating PEG ratio forward P/E is used if expected growth is based on forward EPS.
    ii. Potential bias created by eliminating firms in the sample due to negative multiple values is less in case of Revenue multiple compared to earnings and book value multiple.

Q.3. What is Brand Valuation? Name different approaches to Brand valuation and explain Historical Cost Approach and DCF approach of Brand valuation in brief. (10 marks)

Q.4 What is Valuation? Name different approaches to Valuation? and Explain briefly, the Role of Valuation in Corporate Finance, Mergers and Acquisitions and Portfolio management. (10 marks)

SECTION - II

Roll No.

Total No. of Printed Pages: 1

Total No. of Questions: 05

Maximum Marks: 30

Duration (hrs.): 1.5

Section, if any:

Note: All Questions are Compulsory.

1. How is the cost of debt calculated for a firm? What is WACC? (5m)

2. What are the determinants of growth patterns in DCF Valuation? How does one deal with equity options issued by the firm? (5m)

3. What are the broad scenarios in valuing a private company? Explain each one in brief. (5m)

4. What are the motives behind acquisitions? (5m)

5. A firm is considering a new project which would be similar in terms of risk to its existing projects. The firm needs a discount rate for evaluation purposes. The firm has enough cash on hand to provide the necessary equity financing for the project. Also, the firm:
   - has 1,000,000 common shares outstanding
     - current price $11.25 per share
     - next year's dividend expected to be $1 per share
     - firm estimates dividends will grow at 5% per year after that
     - flotation costs for new shares would be $0.10 per share
   - has 150,000 preferred shares outstanding
     - current price is $9.50 per share
     - dividend is $0.95 per share
     - if new preferred are issued, they must be sold at 5% less than the current market price (to ensure they sell) and involve direct flotation costs of $0.25 per share
   - has a total of $10,000,000 (par value) in debt outstanding. The debt is in the form of bonds with 10 years left to maturity. They pay annual coupons at a coupon rate of 11.3%. Currently, the bonds sell at 106% of par value. Flotation costs for new bonds would equal 6% of par value.

   The firm's tax rate is 40%. What is the appropriate discount rate for the new project? (10m)